

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Catalina Foothills Unified School District No. 16

Year Ended June 30, 2006



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 6, 2007

Governing Board
Catalina Foothills Unified School District No.16
2101 East River Road
Tucson, AZ 85718

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2006, prepared by Heinfeld, Meech & Co., P.C. to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Laura Miller, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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INTRODUCTION

Catalina Foothills Unified School District No. 16 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$48 million it received in fiscal year 2006 to provide this education.

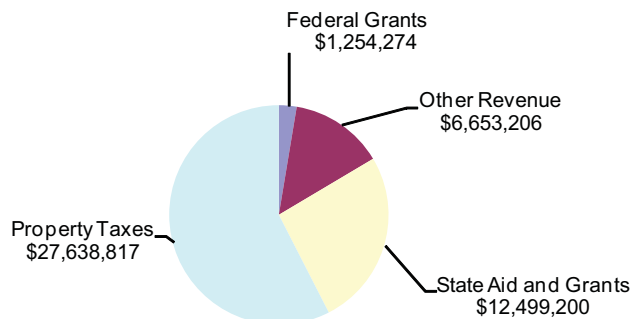
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2006, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2006

County: Pima
Number of Schools: 8

Number of Students: 4,839
Grade Levels: K-12



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2005-2006 and Catalina Foothills Unified School District No. 16 Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006.*

The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and absences. In turn, accurate attendance records are essential to ensure that the districts receive the appropriate amount of state aid and local property taxes. However, partial-day absences were not calculated properly at one of the District's schools and another school disposed of its partial-day attendance records; therefore,

One the of District's schools disposed of its partial-day attendance records, and as a result, the District's auditors were unable to verify attendance at the school.

the District's auditors were unable to test student attendance at the school. In addition, the District did not always retain student entry and withdrawal forms, and the dates on entry and withdrawal forms did not always agree with the District's computerized attendance system or the teachers' attendance records. Further, the District did not document the date that student entries and withdrawals were entered into its computerized attendance system. Finally, the District did not always withdraw students with ten consecutive unexcused absences as of the last day of actual attendance, and a preschool student without disabilities was incorrectly included in average daily membership.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Record kindergarten students, with total instruction time between 346 and 692 hours per year, as absent if in attendance for less than three-quarters of the day. If instructional time for the year was 692 hours or more, students not in attendance at least one-half of the day should be counted as being absent.
- Record attendance for students enrolled in first through eighth grades, if attendance is based on half-days, as follows:
 - Attendance of at least three-quarters of the instructional time scheduled for the day should be counted as a full day of attendance.
 - Attendance for at least one-half, but less than three-quarters, of the instructional time scheduled for the day should be counted as a half-day of attendance.
- Retain documentation to support membership and absences reported to ADE, including partial-day attendance records, and student entry and withdrawal forms.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

- Ensure that membership and absences reported to ADE agree with the District's computerized attendance system and teachers' attendance registers.
- Require a second employee to verify that the entry and withdrawal dates recorded in the District's computerized attendance system agree with the dates recorded on the entry and withdrawal forms.
- Retain documentation to support when student entries and withdrawals are entered in the District's computerized attendance system. Entries and withdrawals should be entered within 5 working days.
- Retain documentation to support the number of unexcused absences, and verify that students withdrawn for ten consecutive unexcused absences are counted in membership through their last day of attendance.
- Include only preschool students with disabilities in the average daily membership submitted to ADE.

The District should improve its controls over competitive purchasing and expenditure procedures

The District spends public monies to purchase goods and services, so it is essential that the District follow School District Procurement Rules and USFR guidelines designed to help ensure that the District receive the best possible value for the public monies it spends, and that its expenditures are appropriate, approved, and adequately supported. However, the District did not always follow the School District Procurement Rules or the USFR guidelines. For example, the District did not always retain adequate documentation to demonstrate compliance with the School District Procurement Rules, including when the request for proposal was issued and if the proposals were stamped with the date and time of receipt. Also, the District did not always advertise the notice of request for proposal when it was required. In addition, the District did not always obtain written price quotations for purchases requiring them. Further, the District did not retain supporting documentation for travel reimbursements and incorrectly paid employees for actual gasoline purchased instead of using the standard mileage rate. Finally, the District did not maintain formal written policies for credit card usage and did not always prepare purchase orders prior to ordering services.

The District may not have received the best value for the public monies it spent.

School District Procurement Rules provide the requirements for competitive sealed proposals for goods and services in excess of \$33,689.

Guidelines for written price quotations can be found on USFR pages VI-G-8 and 9 and USFR Memorandum No. 213.

Recommendations

To improve controls over competitive purchasing and expenditures and to comply with the School District Procurement Rules and USFR guidelines, the District should:

- Retain documentation to support when proposals are issued and that all proposals are date- and time-stamped upon receipt and held unopened until the date and time set for opening.
- Advertise the notice of request for proposals when the District's bidder list has fewer than five prospective vendors.
- Obtain written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Verify that amounts reported on travel claims are for appropriate district purposes, within the Arizona Department of Administration (ADOA) limits, and are supported by reimbursement requests, detailed receipts, and conference brochures, as applicable.
- Reimburse employees and governing board members at the standard mileage rate set by ADOA.
- Establish formal written credit card policies that specify purposes for which the cards may be used and dollar limits for charges, and require authorized employees to submit credit card receipts and document the specific district purpose for the expenditure. Compare billing statements to receipts and determine that purchases represent valid district expenditures. Credit card usage should be strictly limited and restricted to expenditures that require immediate payments.
- Prepare and approve purchase orders before goods and services are ordered.

The District's controls over cash receipts should be strengthened

The District receives cash from various sources, including community schools and student activities, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash. However, the District did not

have strong controls over its cash receipts. For example, the District did not always prepare miscellaneous cash receipt summaries for community school monies received at the district office. In addition, the District did not prepare cash collection reports for monies received at student activities events. Further, the District did not remit monies from the Miscellaneous Receipts clearing account to the County Treasurer at least monthly.

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

Recommendations

To strengthen controls over cash receipts, the District should prepare miscellaneous cash receipt summaries to reconcile cash received to the cash receipt forms for community schools monies received at the district office. In addition, the District should prepare and retain activity or cash collection reports, as applicable, for student activities monies to document sales and reconcile cash collected at student activities events to receipts, tickets, or items sold. For events where it is not practical to prepare cash receipt forms, sell tickets, or count items, such as for bake sales, clubs should still prepare and retain a cash collection report to document cash collected. Finally, to ensure that revenues are accurately recorded and available for use in the applicable funds, the District should remit monies deposited in the Miscellaneous Receipts clearing account by check to the County Treasurer at least monthly.

A sample form to record cash collections and reconcile sales to cash collected can be found on USFR page X-H-21.

The District should ensure the accuracy of its financial records

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records are accurate and complete. However, the District did not fully accomplish this objective. Specifically, the District improperly recorded contract labor payments as tuition and some vendor payments as travel. In addition, the District did not revise its adopted expenditure budget by the December 15 deadline upon notification from the Arizona Department of Education (ADE) that its budget was in excess of the budget limits. Further, the District's budgeted and actual expenditures for numerous funds reported on the District's annual financial report (AFR) did not agree with its expenditure budget and accounting records.

The District did not revise its budget timely when notified by ADE that it exceeded budget limits.

Recommendations

To ensure the accuracy of its financial records, the District should classify transactions in accordance with the USFR Chart of Accounts. In addition, the District should revise its adopted expenditure budget on or before December 15 if ADE notifies the District that its adopted expenditure budget exceeded the General Budget Limit, Unrestricted Capital Budget Limit, or Soft Capital Allocation Limit by \$1,000 or more. Also, the District should update its accounting records for all budgeted and actual expenditures before preparing the AFR and have a second employee verify that the amounts reported on the AFR agree with the District's expenditure budget and accounting records before submitting it to ADE.